B. PRODUCT ACTIONS

1992

In 1992 product management will continue advocating the expansion of local calling scopes as a means to satisfy the continuing regulatory demands for revenue reductions and give-backs. In addition we will continue to support the states in their efforts to satisfy ongoing demand for EAS products.

Product management will intensify efforts to identify LATA-wide traffic patterns in each of the ten major LATAs in an attempt to: 1) identify potential community of interest local exchange boundaries, and 2) quantify the revenue impact of those potential local exchange boundary changes.

C. PROMOTION ACTIONS

<u>1992</u>

Promotions activities in 1992 will concentrate on paying incentives on EAS sales through the base incentive program. RPPC promotions will be held in an effort to maximize the penetration of EAS plans.

<u>1993 and beyond</u>

Promotional support will be provided for SWBT initiated expansion of local calling scopes in the major LATAs.

D. DISTRIBUTION CHANNEL ACTIONS

1992

EAS promotions will be introduced in 1992 in the RPPCs in hopes of driving the subscription rates of new EAS offerings to maximum levels. The RSC representatives will be paid incentives for the first time for the sales of EAS.

1993 and Beyond

We will continue in our attempts to develop new channels and drive sales to the lowest cost channel.

Attachment A

SOUTHWESTERN B. .ELEPHONE COMPANY
EXTENDED AREA SERVICES (EAS)

STATE	PLAN NAME	TARIFF	TRIAL	DIR.	CUSTOMER SEGMENT	RATE STRUCTURE * FLAT RATE	MEASURED RATE INITIAL ALLOWANCE	INITIAL RATE	ADDL. RATE	NRC	REMARKS
AR	OPTIONAL EXPANDED LOCAL				BUS & RCF	$25.00	60 MINUTES	$3.60	$.06/MIN	$6.25	FLAT RATE APPLIES TO METRO POINTS
	CALLING SERVICE	LOCAL #	Y	1-WAY	RES	$19.00	60 MINUTES	$3.00	$.05/MIN	$7.75	MULTIPOINT CALLING SCOPE OPTION OFFERED
											AT 2-TIMES THE MONTHLY RATES AND ALLOWANCES
											MEASURED RATE APPLIES TO ALL EXCHANGES
											EXCEPT NEWARK AND BATESVILLE; SINGLE
											POINT ONLY.
	OPTIONAL EXPANDED LOCAL				BUS & RCF	$18.00	60 MINUTES	$3.00	$.05/MIN	$6.25	FLAT RATE APPLIES TO ALL EXCHANGES EXCEPT
	CALLING SERVICE	LOCAL #	Y	1-WAY	RES	$16.20	60 MINUTES	$2.70	$.045/MIN	$7.75	METRO POINTS ABOVE.
											MEASURED RATE APPLIES TO NEWARK AND
											BATESVILLE ONLY.
KS	OPTIONAL COMMUNITY				BUS & RCF	$25.00	60 MINUTES	$5.00	$.07/MIN	$10.00	MULTIPOINT CALLING SCOPE OPTION
	CALLING SERVICE (1-POINT)	TOLL	N	1-WAY	RES	$19.00	60 MINUTES	$4.00	$.06/MIN	$8.75	OFFERED IN KMO EXCHANGES AT 1.5 TIMES
											THESE MONTHLY RATES
	OPTIONAL EAS	LOCAL	N	2-WAY	BUS	$32.35	100 MESSAGES	$24.25	$.07/MSG	$37.25	OFFERED IN BASEHOR ONLY AND
					RES	$17.00	N/A	N/A	N/A	$23.75	INCLUDES BASIC SERVICE
MO	COMMUNITY OPTIONAL SERVICE (COS)										COMMUNITY OPTIONAL SERVICE
	ONE-WAY USAGE SENSITIVE				BUS	$ 4.00	1/2 the current toll rates			$ 4.00	IS OFFERED ON A ROUTE
	OPTION (RURAL ONLY)	LOCAL	N	1-WAY	RES	$ 4.00	1/2 the current toll rates			$ 5.00	SPECIFIC BASIS
	ONE-WAY FLAT RATE				BUS	$23.55	N/A	N/A	N/A	$ 4.00	
	OPTION (METRO)	LOCAL	N	1-WAY	RES	$11.05	N/A	N/A	N/A	$ 5.00	
	ONE-WAY FLAT RATE				BUS	$12.10	N/A	N/A	N/A	$ 4.00	
	OPTION (RURAL)	LOCAL	N	1-WAY	RES	$ 5.75	N/A	N/A	N/A	$ 5.00	
	TWO-WAY FLAT RATE				BUS	$41.35	N/A	N/A	N/A	$23.50	
	OPTION (METRO)	LOCAL	N	2-WAY	RES	$19.35	N/A	N/A	N/A	$22.50	
	TWO-WAY FLAT RATE				BUS	$21.25	N/A	N/A	N/A	$23.50	
	OPTION (RURAL)	LOCAL	N	2-WAY	RES	$10.10	N/A	N/A	N/A	$22.50	
	OPTIONAL METROPOLITAN										OFFERED ONLY IN:
	MEASURED EXCHANGE				BUS	N/A	300 MINUTES	$17.00	$.05/MIN	$ 5.00	FIFTH & SIXTH TIER EXCHANGES AROUND
	SERVICE (MMES)	LOCAL	N	1 WAY	RES	N/A	300 MINUTES	$17.00	$.05/MIN	$ 4.00	ST. LOUIS, KANSAS CITY AND SPRINGFIELD

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SOUTHWESTERN [illegible] TELEPHONE COMPANY
EXTENDED AREA SERVICES (EAS)

STATE	PLAN NAME	TARIFF	TRIAL	DIR.	CUSTOMER SEGMENT	FLAT RATE	INITIAL ALLOWANCE	INITIAL RATE	ADDL. RATE	NRC	REMARKS
						RATE STRUCTURE *	MEASURED RATE				
MO	OPTIONAL LOCAL-METROPOLITAN SERVICE	LOCAL	N	2-WAY	BUS	$20.25 - $41.25	$11.15 - $22.70		LMS	$ 5.00	SOME 3rd TIER EXCHANGES
					RES	$10.40 - $17.00	$ 5.70 - $ 9.00		LMS	$ 4.00	INCLUDES BASIC SERVICE
	SPECIAL OPTIONAL LOCAL-METROPOLITAN SERVICE	LOCAL	N	2-WAY	BUS	$46.65 - $53.30	$25.65 - $29.30		LMS	$ 5.00	SOME 4th TIER EXCHANGES
					RES	$21.75 - $23.30	$11.95 - $12.00		LMS	$ 4.00	INCLUDES BASIC SERVICE
	NONOPTIONAL EAS	LOCAL	N	1-WAY	BUS	YES	N/A	N/A	N/A	N/A	ROUTE SPECIFIC COST BASED ADDITIVE FOR
					RES	YES	N/A	N/A	N/A	N/A	EAS ARE DISPLAYED ON THE BILL FOR ALL
OK	EXTENDED COMMUNITY SAVER	TOLL	Y	1-WAY	BUS	$40.00	60 MINUTES	$ 4.20	$.06/MIN	$ 7.50	STATEWIDE SINGLE POINT PLAN
					RES	$30.00	60 MINUTES	$ 3.60	$.05/MIN	$ 5.00	OFFERED IN EVERY EXCHANGE.
TX	EXTENDED AREA CALLING SERVICE (EACS)- OPTIONAL	GENERAL**	N	2-WAY	BUS	$46.60	100 MESSAGES	$29.95	$.08/MSG	$60.00	ROCKWALL TO DALLAS AREA
					RES	$19.05	25 MESSAGES	$10.00	$.08/MSG	$60.00	
	EXTENDED AREA CALLING SERVICE (EACS)- OPTIONAL	GENERAL**	N	2-WAY	BUS	$52.20	N/A	$29.95	$.08/MSG	$60.00	RED OAK & FRISCO TO DALLAS
					RES	$21.05	N/A	$10.00	$.08/MSG	$60.00	AREA: EMS EQUIVALENT RATE ADDITIVES.
	EXTENDED AREA CALLING SERVICE (EACS)-NONOPTIONAL	GENERAL**	N	2-WAY	BUS	$24.00	N/A	N/A	N/A	$ 6.05	ALLEN TO DALLAS
					RES	$ 9.60	N/A	N/A	N/A	$ 6.05	
	EXTENDED METROPOLITAN SERVICE (EMS)- OPTIONAL	LOCAL	N	2-WAY	BUS	$81.10	N/A	N/A	N/A	$60.00	SOME 4th TIER EXCHANGES
					RES	$36.00	N/A	N/A	N/A	$60.00	INCLUDES BASIC SERVICE
					BUS	$72.35	N/A	N/A	N/A	$60.00	SOME 3rd TIER EXCHANGES
					RES	$30.10	N/A	N/A	N/A	$60.00	INCLUDES BASIC SERVICE

* Rates apply in addition to basic service rates unless otherwise noted.
* Included in the toll pool.
** Included from toll pool.

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MISSOURI PENETRATION RATES

CONSUMER MARKET

COMMUNITY OPTIONAL SERVICE (COS)

Ash Grove to Springfield	69%
Cedar Hill to St. Louis	61%
Excelsior Springs to Kansas City	44%
Frankford to Bowling Green	23%
Gray Summit to St. Louis	46%
Herculaneum/Pevely to St. Louis	36%
Hillsboro to St. Louis	41%
Macks Creek to Camdenton	35%
Pacific to St. Louis	44%
Walnut Grove to Springfield	76%
Ware to St. Louis	47%
Total	47%

THIRD TIER LOCAL METROPOLITAN SERVICE

Fenton	93%
Manchester	92%
Maxville	91%
Valley Park	94%
Chesterfield	93%
Greenwood	97%
Smithville	89%
Grain Valley	90%
Total	92%

FOURTH TIER SPECIAL OPTIONAL LOCAL METRO SERVICE

Antonia	83%
Pond	89%
Eureka	85%
High Ridge/House Springs	86%
Imperial	87%
Portage Des Sioux	76%
St. Charles	65%
Harvester/Weldon Springs	80%
Total	77%

SPRINGFIELD METROPOLITAN AREA

Billings	94%
Clever	97%
Total	95%

TEXAS CONSUMER MARKET PENETRATION RATES

HOUSTON METRO AREA

Cypress	82%
Richmond/Rosenberg	63%
Smithers Lake	74%
Valley Lodge	79%
Pinehurst	65%
Spring South	78%
Tomball	69%
Alvin	59%
Liverpool	46%
Klein	75%
Spring North	52%
Total	67%

DALLAS ZONES WITH CALLING TO FORT WORTH

Cedar Hill	5%
Grand Prairie	9%
Total	7%

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FORT WORTH MIDSTRIP ZONES WITH CALLING INTO DALLAS

Arlington	25%
Atlas	17%
Euless	28%
Glendale	21%
Kennedale	22%
Mansfield	21%
North Richland Hills	36%
Roanoke	58%
Total	28%

Attachment C

EMS CONVERSION SCHEDULE

	Res Lines a/o 9/89	Bus Lines a/o 9/89	Total	Date to offer EMS	New FX Rates Res	New FX Rates 1FB	New FX Rates PBX	RATE GROUP	Current Rates Res	Current Rates 1FB	Current Rates PBX	Incremental Cost Res	Incremental Cost 1FB	Incremental Cost PBX
Frisco Little Elm 2	1491	211	1702	Jan-90	$30.10	$72.35	$113.50	2	$8.35	$19.60	$31.00	$21.75	$52.75	$82.50
Frisco Colony 370	7452	678	8130	Jan-90	$30.10	$72.35	$113.50	2	$8.35	$19.60	$31.00	$21.75	$52.75	$82.50
Red Oak	4780	544	5324	Jan-90	$30.10	$72.35	$113.50	1	$8.15	$19.15	$30.25	$21.95	$53.20	$83.25
Frisco 377	2325	624	2949	Oct-90	$30.10	$72.35	$113.50	2	$8.35	$19.60	$31.00	$21.75	$52.75	$82.50
Forney	2283	352	2635	Aug-91	$30.10	$72.35	$113.50	1	$8.15	$19.15	$30.25	$21.95	$53.20	$83.25
Combine	546	22	568	Aug-91	$30.10	$72.35	$113.50	1	$8.15	$19.15	$30.25	$21.95	$53.20	$83.25
Crandall	756	67	823	Aug-91	$30.10	$72.35	$113.50	1	$8.15	$19.15	$30.25	$21.95	$53.20	$83.25
Waxahachie	8067	2308	10375	Sep-91	$36.80	$81.10	$125.95	2	$8.35	$19.60	$31.00	$28.45	$61.50	$94.95
Midlothian	3712	700	4412	Oct-91	$30.10	$72.35	$113.50	1	$8.15	$19.15	$30.25	$21.95	$53.20	$83.25
Ennis	5910	1601	7511	Oct-91	$36.80	$81.10	$125.95	1	$8.15	$19.15	$30.25	$28.65	$61.95	$95.70
Splendora	5707	567	6274	Nov-91	$36.80	$81.10	$125.95	3	$8.80	$20.65	$32.65	$28.00	$60.45	$93.30
Terrell	6790	1720	8510	Jan-92	$36.80	$81.10	$125.95	1	$8.15	$19.15	$30.25	$28.65	$61.95	$95.70
Royse City	1724	279	2003	Jan-92	$36.80	$81.10	$125.95	1	$8.15	$19.15	$30.25	$28.65	$61.95	$95.70
Princeton	2353	256	2609	May-92	$30.10	$72.35	$113.50	2	$8.35	$19.60	$31.00	$21.75	$52.75	$82.50
Aubrey	1564	271	1835	May-92	$36.80	$81.10	$125.95	1	$8.15	$19.15	$30.25	$28.65	$61.95	$95.70
Weatherford	12796	2914	15710	Aug-92	$30.10	$72.35	$113.50	2	$8.35	$19.60	$31.00	$21.75	$52.75	$82.50
Alvarado	3597	416	4013	Nov-92	$30.10	$72.35	$113.50	1	$8.15	$19.15	$30.25	$21.95	$53.20	$83.25
Cleburne	14696	3708	18404	Nov-92	$30.10	$72.35	$113.50	2	$8.35	$19.60	$31.00	$21.75	$52.75	$82.50
McKinney West 54	535	76	611	Feb-93	$36.80	$81.10	$125.95	2	$8.35	$19.60	$31.00	$28.45	$61.50	$94.95
Farmersville	1595	276	1871	Feb-93	$36.80	$81.10	$125.95	1	$8.15	$19.15	$30.25	$28.65	$61.95	$95.70
McKinney 542	9422	3444	12866	Feb-93	$36.80	$81.10	$125.95	2	$8.35	$19.60	$31.00	$28.45	$61.50	$94.95
Prosper	771	119	890	Feb-93	$36.80	$81.10	$125.95	2	$8.35	$19.60	$31.00	$28.45	$61.50	$94.95
McKinney 837	823	105	928	Feb-93	$36.80	$81.10	$125.95	2	$8.35	$19.60	$31.00	$28.45	$61.50	$94.95
Marion	1522	142	1664	May-93	$30.10	$72.35	$113.50	1	$8.15	$19.15	$30.25	$24.95	$53.20	$83.25
Lytle	1543	216	1759	May-93	$30.10	$72.35	$113.50	1	$8.15	$19.15	$30.25	$21.95	$53.20	$83.25
Waller	2365	492	2857	May-93	$36.80	$81.10	$125.95	1	$8.15	$19.15	$30.25	$28.65	$61.95	$95.70
Total	105153	22118	127271								Weighted Avg	$24.73	$57.32	$89.06

PRIVATE

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SOUTHWESTERN BELL TELEPHONE COMPANY

CONSUMER SEGMENT

EXTENDED AREA SERVICE

PRODUCT PLAN

PRIVATE

Highly Sensitive - Confidential

HIGHLY SENSITIVE
CONFIDENTIAL
INFORMATION

I-9000 11/17/92 *

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US

SOUTHWESTERN BELL TELEPHONE COMPANY

CONSUMER SEGMENT

EXTENDED AREA SERVICE

PRODUCT PLAN

INDEX

CONSUMER SEGMENT
PRODUCT PLAN OUTLINE

I. **Executive Summary**

This section should provide a synopsis of the plan highlighting:

A. Product Overview - Summary of Part II
B. Market Strategy - Summary of Parts IIIA to IIIE
C. Product Objective - Summary of Parts IIIG & IIIH
D. Action Plans - Summary of Part IV
E. Critical Issues - Roadblock/Contingencies

II. **Product Overview**

A. Product Analysis

1. Product Description

a. Describe product features and benefits.
   1. Needs product meets
   2. Differentiation from similar or competing products
   3. Tie-in with other products
   4. Value SWBT adds to product
   5. Multiple applications
b. Optional features to be offered
c. Technology used to provide service
d. Service differences due to serving C.O. technology
e. Regulated/Unregulated (KCO #)

2. Product Life Cycle

a. Life cycle stage
b. Expected product life
c. Contribution revenue/sale; annual & life
d. Current penetration level, i.e. (mkt. share)
e. Current growth rate by state and company
f. Penetration potential

B. Market Analysis

1. Market Characteristics

a. Availability (state, metro, etc.)
b. Size of current market
c. Market growth potential
d. Seasonality of sales; cycles
e. Identify/describe market trends such as industry use or end-use patterns

2. Customer Characteristics

    a. Demographic targets
    b. Psychographic targets (clusters)
    c. Describe customer needs
    d. Customer lifestyles and attitudes
    e. Customer perception of product
    f. Customer application and product use. (When does customer use product?)

3. Market Environment

    a. Identify and discuss regulatory climate
    b. Discuss economic policy situation
    c. Discuss environmental (political, technical), or consumer (social, demographic) affair impact that may be pertinent to the product.

C. Competitive Analysis

1. External Competitors

    a. Market share of each
    b. Competitor strengths and weaknesses
    c. Competitor strategies
        (1) pricing
        (2) product differentiation
        (3) promotion/advertising
        (4) distribution channel

    d. Analysis of competitor performance

        (1) Describe trends in competitive market share
        (2) Describe past results and strategies
        (3) Evaluate their resources for new product development
        (4) Evaluate their ability to market, finance and manage.

2. Internal Telco and/or CPE Competitors

    a. Market share of each
    b. Competitor strengths and weaknesses
    c. Competitor strategies
        (1) pricing
        (2) product differentiation
        (3) promotion/advertising
        (4) distribution channel

3. Assessment of SWBT competitive position

Discuss strengths and weaknesses: Consider the following:

a. Availabilty
b. Maintenance
c. Reliability
d. Price level
e. Pricing plan
f. Newness
g. Track record
h. New application
i. Ease of us
j. Company reputation
k. Guarantee
l. Useful life
m. Win-backs
n. Sales force knowledge/capabilities
o. Other

III. Market Strategy

A. Product/Family Strategy (Feature Strategies)

1. Planning Assumptions
2. Identify strategic alternatives, customer targets, competitor targets, and core strategy.
   a. Tariff filing schedules
   b. Technology deployment schedules

B. Promotions Strategy

1. Special/seasonal promotions/campaigns
2. Incentive programs; base/special
3. Promotions calendar
4. Trade shows

C. Pricing Strategy

1. Current/proposed price structure
2. Pricing incentives
3. Discounts

D. Distribution Channel Strategy

1. RSC
2. PPC
3. DM/DR
4. Other

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E. Service Strategy (Segment Plan Only)

F. Marketing Objectives

1. Describe product objectives
2. Relate product objectives with those of product line, segment,and Company.
3. Current year forecast/actuals: demand and revenues

G. Priorities

1. Current Year
2. Short term (1-3 years)
3. Long term (3-5 years)

IV. Action Plans

A. Price Actions

Summarize planned tariff filing schedules and pricing actions for product over the next year. Use broad statement to address second and third year plans.

B. Product Actions

Summarize planned changes/enhancements to the product over the next year. Use broad statement to address second and third year plans.

C. Promotion Actions

Summarize planned promotions actions for product over the next year. Include promotional and advertising objectives. Use broad statement to address second and third year plans.

D. Distribution Channel Actions

Summarize planned channel actions for product over the next year. Use broad statement to address second and third year plans.

II. PRODUCT OVERVIEW

A. PRODUCT ANALYSIS

1. PRODUCT DESCRIPTION

Extended Area Service (EAS) is defined as any expansion of the local service calling area to include two or more exchanges that would otherwise be long distance points. Although traditional EAS plans were generally non-optional, flat rate, 2-way plans, today's plans may be optional or non-optional, flat rate or usage sensitive, 1-way or 2-way, and may or may not include contiguous exchanges. When possible, plans should utilize 7-digit dialing because it is perceived as local service. However, some forms of existing plans are provisioned using 1+ dialing.

For billing purposes the two basic types of EAS plans are bundled and unbundled. Unbundled plans bill the EAS rate as a separate additive from the access line rate. In bundled plans one USOC bills both the EAS portion of the rate and the access line portion (for example 1ER). Whether EAS is offered bundled or unbundled, our strategy is to offer flat rate EAS as our premium access line service. A list of the EAS plans currently available is included in Attachment A.

Some type of EAS plan exists in all five states in SWBT's territory, with all plans being a regulated, tariffed service. All new arrangements or changes to existing plans must be approved by the various state public utility commissions. Kansas, Missouri, and Texas have improved regulation plans in place that prohibit raising local exchange rates for a specified period of time. This includes rates for most existing EAS plans.

Although EAS is a replacement service for long distance, it differs from long distance service in that EAS is usually flat rate, while long distance is usage sensitive. This same difference applies to mobile service, which also competes with EAS. Competition will be discussed in greater detail later in this document.

A benefit of flat rate EAS to our customers is the security of knowing that they can make unlimited calls in their local calling area without concern for usage sensitive long distance costs. With the flat rate option, customers have the security of knowing how much their bill will be each month. Although flat rate service may actually cost some customers more than usage sensitive service, it is often perceived as being less expensive.

Accessibility is another benefit of 2-way service. Many of our customers do not need the service for outgoing calls, but for toll free incoming calls. For example, a customer may have an elderly parent on a fixed income who he wants to have the ability to call without worrying about the expense. Also children can call from school at anytime for no additional charge. In consumer focus groups recently held in Dallas, many customers stated that they purchased the service almost exclusively so their friends and relatives could call them. Many said they work all day and make very few outgoing calls.

Two-way plans usually include a listing in the target directory and a copy of that directory. Customers, especially business customers, seem to believe that this extra listing also makes them more accessible to other customers, therefore increasing the value of the service.

The easiest way to provision EAS is by using dedicated NXXs; however, because new NXXs are generally not available this is not a viable alternative. Community Optional Service (COS) in Missouri is provided using called screening tables. The problem with this method is that return calling must be made using 1+ in order to record the usage. We are investigating alternative methods of providing 2-way EAS, including recording all usage and an provisioning using an overlay network. We have also been informed by Network that optional plans can be provided as part of the Flexible Services Production (FSP) which is currently in the planning stage.

2. PRODUCT LIFE CYCLE

Since there are many different EAS plans available, it is impossible to place EAS in any one stage of the product life cycle. Some plans such as the service available in the 3rd and 4th tiers in Missouri have been available for many years. The penetration rate is very high, 92% and 77% respectively, and the service is in the late stage of the product life cycle. Other service, such as the Texas First routes, have just been introduced. Penetration is low and the service is in the early stage of the product life cycle. The product life coincides with the product life of the access line.

Likewise, it is impossible to make universal assumptions about contribution. Where the community of interest is strong, the penetration rate is high and our customers buy-up. When customers purchase plans for reasons other than economic choice, the plans are profitable. If only those customers who can save money purchase the EAS plan, the service will lose money. The break even point is different for every plan. Since the rates have often been set based on forecast penetration rates, profitability has depended on penetration. In the past the penetration potential has usually been achieved within a short time after implementation. We plan to try to stimulate penetration on new routes to maximize profitability.

Attachment B shows penetration rates for the 2-way EAS plans.

B. MARKET ANALYSIS

1. MARKET CHARACTERISTICS

As stated earlier some form of EAS is available in all five states in our territory. It is not available on a statewide basis. To obtain EAS a community must pass certain community of interest criteria. For example, to obtain COS in Missouri customers in the petitioning exchange must make an average of six calls per access line per month to the target exchange and two-thirds of the customers must make at least two calls per month. Criteria in the other states are similar.

The market's demand for EAS is easily demonstrated by the large number of requests our customers make to the various state commissions, as well as by the large take rates of many of our existing plans. Most of the market potential for EAS appears to be in the areas outlying large urban communities where the surrounding exchanges have grown in population and in the degree of interaction with the adjoining metro communities. In rural areas as well, the community of interest has grown beyond the traditional exchange boundaries. Our customers want local calling into the metro areas close to them, to their county seat, or any other community where their businesses, hospitals, schools, or other services are located. As our customers' communities of interest expand, so does their demand for EAS. Customers are no longer satisfied with calling scopes that were traditionally determined by technology or the location of our central offices.

Most of the market growth potential is in Texas where we will be implementing 25 Extended Metro Service (EMS) routes over the planning period. As stated earlier the penetration potential is usually realized relatively quickly on EAS routes. Due to the regulatory lag, there is usually pent up demand for the service by the time it is available. Since long distance usage and revenues are experiencing slowed growth, the need for customer responsive EAS plans is even greater.

2. CUSTOMER CHARACTERISTICS

Our target includes all customers in SWBT's franchise territory where EAS is available. All households in our territory have been segmented based on psychographic and behavioral characteristics through the use of the Cluster Analysis developed by LINK Resources. An analysis has been done in Texas to determine in which clusters customers who purchase EAS are located. In future campaigns we can target those same microvision codes.

Although we have not done any substantial customer research, we have determined through focus groups that customers buy EAS for reasons other than economic. Many customers prefer the security of flat rate calling into the exchange where they feel a community of interest. Other customers do not make calls to the target exchange, but want others to be able to call them at no charge. Some customers said they felt cutoff from friends and relatives without this free calling. Even though they may not be saving money, they still believe that the service has value to them.

As Enhanced Service Providers (ESPs) become more common, the demand for EAS will increase. Residence customers outside the exchange boundary will demand access to the same services the metro customers have access to at the same prices. We will receive pressure from the ESPs for expanded local calling scopes for the same reasons. The ESPs will want the opportunity to serve customers located outside the metro exchange.

3. MARKET ENVIRONMENT

While the current regulatory environment in our five states in generally not favorable, EAS is helped by the fact that the customer is on our side. Since requests for new EAS routes are placed by customers or local government representatives with the state commissions, the commissions are well aware of the customer demand for the service. Our problems with the state commissions generally are pricing and pooling issues. Even though most commissioners believe that EAS is a local service, they are reluctant to classify the revenues as local and remove them from the intraLATA toll pools, or other settlement arrangements. Most commissioners feel an obligation to keep the intraLATA toll pool whole. The smaller Independent Telephone Companies rely on the toll pools for a large percentage of their revenues. Commissions feel obligated to protect the customers of the independent LECs from experiencing rate shock that they believe could occur if large amounts of revenues are removed from the toll pools forcing the independent LECs to recover these revenues from their own customers. Since classifying the revenues as local is essential to the profitability of EAS, Industry Relations plays a crucial role in our marketing strategy.

When we do manage to convince our commissions to classify the EAS revenues as local we still have some pricing differences. In three of our states, Kansas, Missouri and Texas local rates are frozen under improved regulation agreements. Therefore, we have no flexibility to raise prices. Our local rates are among the lowest in the nation, and our commissions try to keep local rates down.

Most state commissioners prefer optional EAS plans because under mandatory EAS everyone pays for the service whether they want it or not. We share these concerns about the effect mandatory EAS has on universal service, and prefer plans that offer our customers options.

Whenever possible we will use EAS as a vehicle to give back money in our territory. These opportunities may come up when negotiating new improved regulation agreements, earnings complaints, etc.

As the economy in our region continues to suffer and access line growth declines EAS will play an important part in our objective to raise the amount our customers spend monthly on telephone service. EAS provides a stable recurring revenue stream in support of this objective.

C. COMPETITIVE ANALYSIS

1. EXTERNAL COMPETITORS

Although SWBT is the only LEC authorized to provide local telephone service in our franchise area, we do have competition in the EAS market. Interexchange Carriers (IXCs) who provide intraLATA toll are probably our biggest competitors. At this time intraLATA competition is only allowed in Missouri and Texas. Since SWBT has exclusive rights to 1+ intraLATA traffic in all our five states, customers in Missouri and Texas who wish to use a different carrier must use special dialing procedures. Although at this time only an estimated 3.4% of intraLATA minutes of use is carrier by the IXCs, it is an advantage to them that they are allowed to carry interLATA traffic also. Many customers prefer that one carrier handle both their interLATA and intraLATA calls.

To date the IXCs have not vigorously opposed expansion of the local calling scopes; however, they have stated in several EAS filings that more competition will lower short haul toll rates and eliminate the need for EAS. As we more actively seek to expand local calling scopes, we anticipate that the IXCs will become more involved in the regulatory process. In fact, in a recent meeting of an industry task force in Missouri, a representative of AT&T indicated that they have a new company policy to oppose any new expansions of local calling scopes.

Interexchange Carriers face many barriers in competing with EAS. As mentioned earlier, intraLATA competition is allowed only in Missouri and Texas. Companies must receive state commission approval to enter the market in the other three states. To arrange for intraLATA presubscription, companies would also have to obtain commission approval. At this time, there may not be large profits available in the short haul routes where EAS plans are generally offered. In fact, SWBT is sometimes the low cost provider in these short haul routes. Where competition is allowed, the IXCs must pay SWBT access charges, which further minimizes their profits. For now the IXCs may be hesitant to push for intraLATA presubscription because they fear doing so could open up the door for the LECs to enter the interLATA market.

The top few IXCs, AT&T, MCI and Sprint, are formidable competitors both in terms of finances and interLATA market share. Up to this point, their emphasis seems to have been on the interLATA market. However, the intraLATA market is receiving more and more attention. While the IXCs have ample resources, regulation presents a huge hurdle for them to overcome. We believe that our competitors' strategy is to gain the right to compete for intraLATA traffic in all five SWBT states, and to have our 1+ dialing privilege removed, which we estimate will take place sometime before the year 2000.

While these toll services are in competition with EAS, they do have major differences. Toll rates are usage sensitive, 1-way plans, while most of our EAS plans are flat rate and 2-way. It is our belief that our customers prefer flat rate service, and many customers buy EAS for the 2-way option. In order to be competitive, we must sell these benefits of EAS.

Another competitor for EAS is cellular service. In most cases cellular companies have wider calling scopes than SWBT. Many companies offer pricing plans with calling during off-peak hours at no charge or at reduced rates. Although we have not been able to measure how much of an impact cellular competition has on EAS, we believe it will increase as the equipment and monthly service continue to become more affordable.

Cellular companies are also continuing to grow. We know that they use their large local calling scopes packaged with their flat rate off-peak packages as a selling feature. In three of the four focus groups recently held in Texas, customers said they use their cellular service to bypass SWBT's free local calling area in some way.

2. INTERNAL TELCO COMPETITORS

Internally EAS is in competition with our own intraLATA toll and in some instances Optional Toll Calling Plans (OCPs). All of our customers have access to the intraLATA toll network--no action is required on their part to obtain intraLATA toll. On the other hand, a customer must make a buying decision and take action to purchase EAS. While he also must take action to buy an OCP, advertising is planned for OPCs to stimulate buying action during the planning period, while none is planned for EAS. However, the existence of a product line plan for local access lines, intraLATA toll and EAS, will serve to minimize competition between these products.

3. ASSESSMENT OF SWBT COMPETITIVE POSITION

The biggest strength EAS has over its competitors is the structure of the service. Our customers have indicated that they prefer flat rate, 2-way, 7-digit dialed plans. Since there is still little competition in the consumer local exchange market, our customers, or their representatives, bring their requests for local EAS to SWBT. Having the customer on our side helps our position with our state commissions.

Our services, especially those provisioned using dedicated NXXs, is easy for customers to understand. They trust the service and they trust SWBT. The degree to which the customers accept these services is demonstrated by the large take rates, which have been achieved by selling on demand only, and by the volume of requests for EAS we receive. In addition, focus groups demonstrated satisfaction with the service and the price. In fact, the service is probably under priced in several locations.

We have work to do in several areas. We must learn to provision optional EAS using 7-digit dialing without dedicated NXXs. New NXXs are scarce and customers do not like to change their telephone numbers. Allowing customers to keep their numbers would probably increase penetration even further. We also need to do more research to learn what our customers want and how much they will pay for it. We need to design plans that are customer responsive instead of regulatory driven.

While the called screening method used in COS in Missouri does allow customers to buy the service on an optional basis and keep their own number, some customers are still not satisfied. Since most customers associate 1+ dialing with long distance, many customers are hesitant to call 2-way COS customers dialing 1+. This problem is particularly significant to business customers who desire local presence in the target exchange.

Importantly, we also need to be sure that our sales force is offering EAS as our premium access line product, that they understand how it works, and the benefits to the customer and to SWBT. To date our distribution channel has been the RSC, which has a knowledgeable sales force. However, historically EAS has been sold on a demand only basis. We must change this mind set to be sure EAS is being sold on every appropriate contact. We also plan do so some sales out of the RPPC.

Studies have shown that customers do not know the difference between interLATA and intraLATA. Positioning SWBT as their provider of local and long distance service is crucial in our marketing strategy. Customer driven EAS plans can help us achieve that goal.

VII. MARKET STRATEGY

A. PRODUCT STRATEGY

1. PLANNING ASSUMPTIONS

A major assumption is that we will lose our exclusive 1+ dialing privilege in this decade. Our strategy contains five action items, the first of which is to expand local calling scopes.

A second major assumption is that customers want EAS. We believe that they prefer plans that are 2-way, flat rate, optional, 7-digit dialed. Focus groups support this assumption.

Another assumption is that EAS plans can be stimulated. We know that customers do buy up, but we have not tried to stimulate these plans. We plan to trial a spurt campaign in a Texas market in December 1991.

Plans are to promote the expansion of local area calling scopes as an alternative to local rate reductions during regulatory hearings and in addressing current and future over earning conditions. We will analyze intraLATA usage in our ten major LATAs and develop EAS offerings targeted at satisfying current community of interest requirements.

EAS will be positioned as the premium access line offering where it is available.

2. SCHEDULE

At this time plans are to file a 2-way, flat rate, optional service in Kansas 1Q92. A filing will also be made in Missouri with the date and structure dependent on the outcome of a commission ordered industry task force. Additional Texas First routes will be added in 1992 and 1993. (See Attachment C for schedule).